

## Hungary: Headline inflation peaks at eight-year high

Headline inflation rose again, reaching a level not seen since 2012. But as base effects had a strong impact on that increase, we think inflation peaked in January



People on the Széchenyi Chain Bridge, Budapest

# 4.7%

Headline CPI (YoY)

Consensus 4.4% / Previous 4.0%

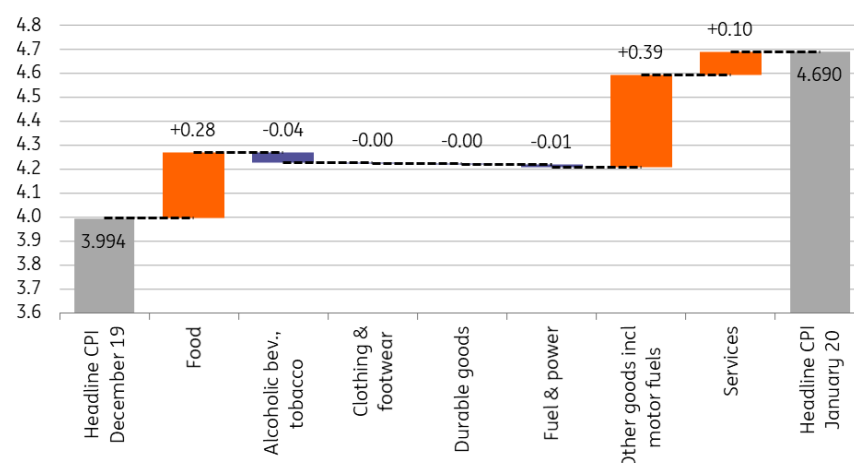
Higher than expected

Headline inflation in January came in at 4.7% year-on-year, a 0.7 percentage point acceleration from December. Although the actual reading came in higher than the market expected, the main drivers behind it were not a major surprise:

- In January 2019, inflation dropped 2.3% month-on-month, providing a low base for this year. In addition, fuel prices rose 2.3% in January this year. These factors resulted in a 0.4 percentage point impact in the yearly inflation reading.

- Inflation in food accelerated to 2.0% month-on-month, slightly stronger than we expected, mostly driven by pork, vegetables and fruits.
- Tobacco products showed a 1.2% monthly price increase as an excise duty hike kicked in. But after a similar move last year, this didn't really play a role in the acceleration in the headline reading.
- Durable goods prices increased by 0.3% on a monthly basis, translating into an almost 1% year-on-year drop, which had a downward effect on core inflation.
- Price changes in services came in a touch stronger than expected at 0.5% MoM. The main causes behind that were price increases in postal services and entertainment services.

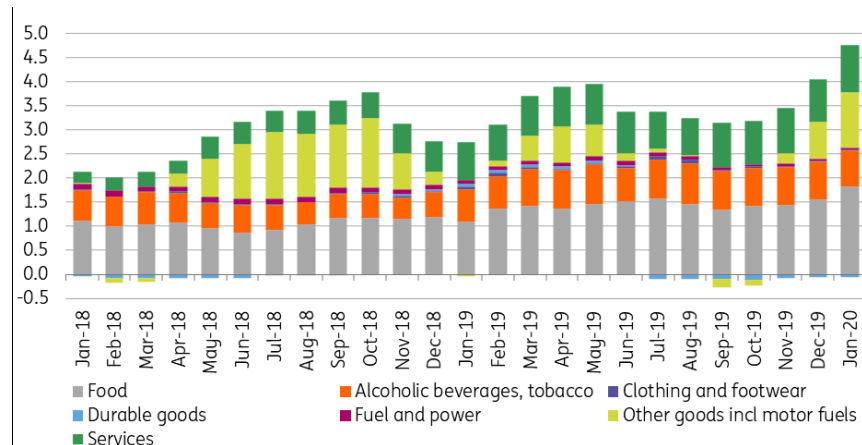
## Main drivers of the change in headline CPI (%)



Source: HCSO, ING

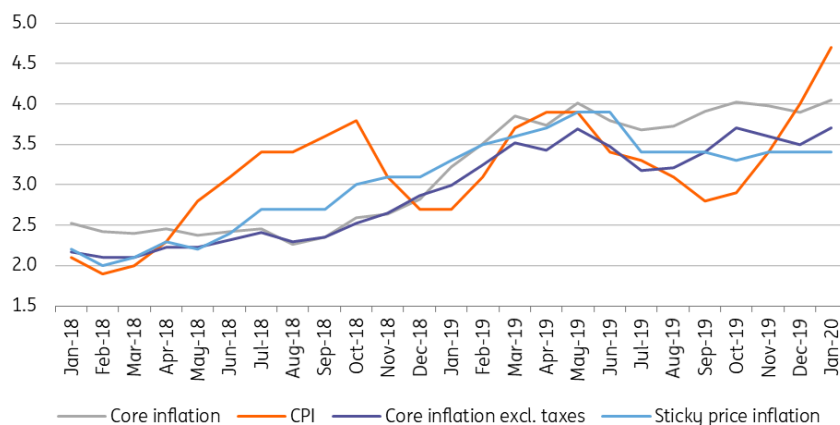
Most of the acceleration in the headline indicator stemmed from technical factors and volatile (non-core) items. But underlying inflation was broadly stable, showing only a 0.1ppt acceleration in January after a 0.1ppt deceleration in December. Core inflation (which excludes unprocessed food, energy & administered prices) came in at 4.0% YoY in January. If we adjust this reading for tax changes, core inflation excluding indirect taxes shows a 0.2ppt acceleration to 3.7% year-on-year. This is because of the increase in processed food prices which are sensitive to changes in world market prices, so we can say this is rather temporary.

## The composition of headline inflation (ppt)



Looking ahead, we believe that the worst is now behind us for 2020. The base effect will favour a drop in headline inflation in the coming three to four months. By May, headline CPI should be close to, or above, 3%. Underlying inflation is expected to remain relatively stable with an expected decrease in the second half as economic activity slows. We see the headline CPI at 3.5% YoY in 2020, while our core inflation forecast in 2020 stands at 3.8% YoY.

## Headline and core inflation measures (% YoY)



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